



Munich Personal RePEc Archive

Profits and employment.

Thanos Skouras

Athens University of Economics and Business

12. October 2013

Online at <http://mpra.ub.uni-muenchen.de/50597/>

MPRA Paper No. 50597, posted 14. October 2013 16:39 UTC

Profits and employment

Thanos Skouras

Abstract

The volume of profits in an economy is a magnitude, which is out of sight of orthodox macroeconomic textbooks and effectively ignored by neoclassical macroeconomics. In contrast, Kalecki's approach brings to the forefront the sources of profits and makes possible their further analysis. In a previous paper, the sources of profits and their impacts, as well as the inter-relations among them are examined one by one. The sustainability of the profits' sources tends to have inevitable limits, which are discussed and elucidated. Given these limits, two phases in the operation of the sources may be distinguished, with a beneficial phase being transformed into a pathological one, as the limits are breached. Consequently, profits may be distinguished according to the source from which they flow, as well as the phase in which they arise. Taking into account both source and phase, a terminology is proposed to highlight the distinctive character of the different kinds of profits. The present paper briefly reviews this analysis and terminology and, based on this, goes on to consider the relationship between profits and employment. The concept of 'wasted profits' is first presented and developed. This is followed by an assessment of the alleged opposition between profits and employment. Finally, the employment effects that the different kinds of profits are likely to bring about, are examined and compared to each other on the basis of appropriate elasticities.

Sources and sustainability of profits

The determinants of profits, following Kalecki's analysis, can easily be derived from national accounting identities¹. Gross profits net of taxes (P) must be equal to gross private investment (I), plus export surplus (X), plus budget deficit (B), plus consumption out of profits (C), minus savings out of wages (S).

$$P = I + X + B + C - S$$

This approach shows that profits are determined by decisions, actions and outcomes relating to and ultimately determining the magnitude of five macroeconomic variables. The above five sources of profits, together with their inter-relations and impacts, as well as their sustainability, are considered in detail in a yet unpublished recent article.²

¹ Kalecki shows that they may also be derived from the Marxian "schemes of reproduction" by dividing the economy into three departments: department 1 producing investment goods, department 2 producing consumption goods for capitalists and department 3 producing consumption goods for workers. See Kalecki M. (1971) *Selected Essays on the Dynamics of the Capitalist Economy 1933-1970* (Cambridge: Cambridge University Press), Chapter 7.

² See, Skouras T. (2013) «Sources of Profits and their Sustainability: A Survey of Basic Theoretical Issues». *Munich Personal RePEc Archive*, 26 April. The remainder of this section, including Table 1, is all taken from the concluding part of the above article.

Here, the conclusions of this article are first presented before the effects of profits on employment are examined. Thus, the primary impacts, pathology and negative side effects, as well as the sustainability limits of the different sources of profits are briefly reviewed. In addition, a terminology that can aptly distinguish the sources among themselves, as well as from the pathological instances with which they are associated,³ is proposed for evocative aid.

The name proposed for the profits generated by the investment source of profits is *organic profits*. The primary association of organic profits is with the economy's productive capacity. This is expanded by the investment, which has given rise to organic profits, according to the estimations of the investing firms regarding the prospects for future profits in different economic activities. These estimations are influenced by a host of factors, such as the climate of business confidence, the ease of financing conditions and the interpretation of market-prices signaling, including the present volume of total profits and its distribution among different sectors. The estimations of the investing firms may turn out wrong, so that excessive investment is made in certain activities. This may prove disastrous for the firms concerned but the necessary adjustment of resource reallocation among firms and sectors does not ordinarily pose a problem to the operation of the economy. If, nevertheless, the excessive investment results in a grave sectorial imbalance, especially in strategic sectors

³ The pathological form takes hold when the limits, which may not always be precisely identifiable, are eventually reached. Its appearance may then become suddenly rather than gradually evident to the perception of the relevant market participants and policymakers.

with a large number of linkages throughout the economy (e.g. banking), then the collateral damage can be extensive and the necessary adjustment becomes impossible without a serious disruption to the operation of the economy. A grave sectorial imbalance sets then the limits of the investment source of profits, generating widespread losses throughout the economy. These limits give rise to the pathological form of organic profits, which may be termed *miscarried profits*.

The profits emerging from the export surplus source might be named *non-autonomous profits*. These are primarily associated with the acquisition of foreign assets but also with a reduction in foreign profits of an equal magnitude. The limits of non-autonomous profits are determined by the extent to which the foreign trading partners are willing to tolerate this practice, which in effect amounts to a kind of poaching of their own profits. Once their toleration is exhausted, they can resort to tariffs on imports and/or lowering of the exchange rate. These measures can eliminate the non-autonomous profits, turning them to their pathological form, which is of two kinds. The reversal of their balance of trade from negative to positive through tariffs and/or the exchange rate leads to what may be termed *thwarted profits*, while the lower value of foreign assets in terms of the local currency might be called *devalued profits*.

The name proposed for the profits issuing from the budget deficit is *provisioned profits*. These are primarily associated with an increase in public debt. The limits of provisioned profits are determined by the

creditors' confidence that the debt will be fully honored. Clearly, this greatly depends on whether the debt is incurred in the local currency, which is under the control of the borrowing country, or whether it is in foreign currency. But it also depends on whether the debt is utilized to strengthen the productive potential or made use of to increase consumption. This is of importance even if the debt is in local currency. A consumption-oriented, or generally wasteful use of the debt, which does not enhance the productive capacity, tends to create inflationary pressures and to lower the exchange rate of the local currency. As a result, even the certain repayment of a local currency debt will impose a loss on both the home and foreign creditors, since it will represent a lower value in purchasing power or real terms (a loss that is particularly relevant for the home creditors) and a lower value in terms of foreign currency (more important for the foreign creditors).⁴ Consequently, the creditors' confidence wanes and the limits of provisioned profits are reached when the mounting debt is increasingly channeled to wasteful or other uses that do not promote the productive potential, at which point they assume in creditors' perception the pathological form of *squandered profits*.

The profits generated by increased consumption out of profits, may be termed *embellishing profits*. They are largely associated with a larger production and consumption of luxury goods. The approach to the limits of this source is shown by the appearance of inflationary

⁴ The main difference between home and foreign creditors seems to be that the latter can stop lending and thus may extricate themselves; while the former, even if they refuse to lend, will still carry the debt burden as taxpayers, if the government controls the central bank and borrows from it.

pressures and increasing inequality in living standards, as the economy gets near full employment. But the limits are definitely arrived at, when the social legitimacy of a democratic capitalist system is widely questioned and put in jeopardy. This source can then be retained only by a passage to a non-democratic oppressive regime. The pathological form of profits, which will have taken hold by then, may be termed *dissolute profits*.

The source of profits associated with lower saving and indeed dis-saving out of wages, gives rise to profits which may be labeled *gratifying profits*. These profits are connected with a greater consumption of goods and services and, hence, a higher living standard of wage earners. The limits of gratifying profits are normally narrow and cannot extend beyond the point where all wages are consumed and there is no saving out of wages. Nevertheless, the boundaries may be extended considerably if the banking system's laxity increases and lending terms are loosened. In this case, the limits are arrived at, when the default rate in wage earners' loans increases and the loans are perceived to have become unsustainable. The pathological form, which then comes into evidence, may be called *dissipated profits*.

The comments above are presented in the form of a table (see Table 1); in which, **I** stands for investment, **X-M** for export surplus, **B** for budget deficit, **C_π** for consumption out of profits and, finally, **-S_w** for reduced saving or dis-saving out of wages. The beneficial phase profits are transformed into the pathological phase ones, as the limits

of the beneficial phase are approached and eventually breached. Though the transformation may be gradual, its widespread realization by the public of the pathological nature of profits is likely to take place suddenly. This is to be expected, since if the on-going transformation were widely realized, normally there would be pressures to arrest the increasing use of the particular profits' source. Nevertheless, the possibility that the forces insisting on the continued use of the hazardous source are strong enough to prevail, should not be dismissed. Most crises result from profits reaching their pathological phase because the power structure in a society is stacked in favor of particular business interests or populist political forces.

Profits and employment

After this short review of the main impacts, limits and pathological forms of the five sources of profits, their effects on employment may be considered. We start with two general points.

1. Wasted profits

The first concerns a neglected albeit interesting concept, which brings out the relationship between profits and employment. This is 'wasted profits', a term first introduced by Jerome Levy nearly a century ago.⁵

⁵ Jerome Levy was an American businessman and later financier, who independently investigated the sources of profits from an empirical rather than a theoretical

Levy believed that profits, being crucially important to the operation of the capitalist economy, should not be wasted but made the most of, so as to provide the highest possible level of employment and output. Profits are wasted, whenever they are greater than what is absolutely necessary for any given level of employment and output. The volume of profits that is absolutely necessary for a level of employment is determined by the risks (market and any other) inherent in each line of production. The estimation of wasted profits, therefore, requires knowledge of the risks attendant on the particular economic activity, in order to establish the volume of profits that are absolutely necessary.

It is clear that Levy's concept of wasted profits is not easy to estimate and this is perhaps a reason it did not catch on. A general inference that, nevertheless, may be drawn from it concerns the intrinsic wasted profits associated with monopolies. Consequently, its usefulness is to be found not so much in its operational value as to the attention it directs to the wasted profits and loss of employment, which are unfailingly involved in monopolies and restricted competition.

The concept of wasted profits might yet be reinterpreted in a Kaleckian fashion, so as to be made more operational. Wasted profits, in this case, will not be measured as such but will be measurable in terms of the loss in employment, which they cause. Given the volume of profits determined by the five sources, the level of employment is determined by

standpoint and in a more disaggregated detail than Kalecki (allegedly before Kalecki, though his conclusions were published later in 1943). The Levy Economics Institute at Bard College was founded and financed by him and his descendants. See, Levy S. Jay (2001), "Profits: The Views of Jerome Levy and Michal Kalecki", *Journal of Post- Keynesian Economics*, Vol.24, Issue 1, pp.17-30.

the degree of monopoly. The latter can be simply indicated by the profit margin per unit of employment. Wasted profits can then be defined as the loss in employment associated with a given increase in the degree of monopoly or profit margin. In this manner, wasted profits are expressed in terms of their effect on employment and measured in labor units.

The notion of wasted profits can also be expressed by means of an elasticity measure, which relates employment to the profit margin. The *elasticity of wasted profits* is defined as the proportionate change in employment divided by the proportionate change in the profit margin per unit of labor.

It may be noticed that such an elasticity measure can be defined separately not only for each industry but also for each firm (which is the fundamental decision-making unit). Thus, the wasted profits elasticity values for an industry and, even more so, for the whole economy are in effect composite estimates. The economy-wide elasticity of wasted profits (which are, of course, measured in terms of loss in employment) will be a composite of wasted profits in different industries weighted by the proportion of each industry's employment to total employment. Similarly, wasted profits in each industry is a composite of wasted profits by each firm, weighted by the proportion of each firm's employment to total employment in the industry.

The negative elasticity values for industries and firms will tend to be higher (as an absolute number), the more labor-intensive is a particular industry or firm. This is because the firms, which are the fundamental decision-making units as regards pricing, set prices and offer employment on the basis of an expected volume of demand and profits.

The relationship between profits and employment, which emerges from the wasted profits notion, is clearly negative: A higher average profit margin necessarily implies, *ceteris paribus*, a lower employment. This sets the stage for the second general point, which concerns the relationship between total profits and employment and, by extension, that between the interests of, on one hand, business (both owners and top managers whose income is heavily dependent on profits) and, on the other, all other employees and workers.

2. Is there an opposition between profits and employment?

The existence of a negative relationship between profits and employment, and hence of an antagonism between profit recipients and wage or salary earners, is a view that is quite common among the general public and possibly at least part of the economics profession. But it must be noticed that the wasted profits notion relates to a *given* volume of profits (as determined by the five profits' sources), which may be associated with a higher or lower level of employment, depending on the degree of monopoly (or strength of competition) characterizing an economy. A higher degree of monopoly is reflected by a higher average profit margin and, since total profits are given, this implies a lower output and employment. A higher profit margin also implies that the distribution between total profits (which are given) and total wages (which are lower because of the lower employment) becomes more favorable to profits.

Nevertheless, the inverse relationship between the profit margin and employment, when total profits are given, does not carry over to the relationship between total profits and employment. The relationship

between these two is mostly positive rather than negative. Employment generally increases as total profits increase or, to be more precise, employment increases as *expected* total profits increase. The mechanism is as follows: The expectation of an increase in profits leads firms (especially in industries in which the prospects for higher profits are the most bright) to increase production and output. In order to increase output, employment tends to be increased. Thus, higher expected total profits are necessarily associated with higher employment.

Does this positive relationship between expected profits and employment also hold for *actual* profits and employment? It depends on how the increase in employment and output affects the sources of profits. Let us examine this in some detail. If employment and output increase in the production of investment goods, then actual profits will increase. Actual profits will also increase if employment increases in the production of export goods. In both these cases, a positive relationship is established by the increased employment bringing about the increase in actual profits. The chain of causation thus runs, in a self-fulfilling manner, from *expected* profits through employment and output to *actual* profits.

But what happens if employment increases *exclusively* in the production of consumption goods? In this case, actual profits will not increase and the expectation of higher profits is disappointed. If, as a result, a more pessimistic expectation of profits sets in, then future investment may be negatively affected causing a fall in future actual profits. However, this seems to be an extreme case. The more likely case is, that employment will increase in the production of both investment and consumption goods and, therefore, some increase in actual profits will accompany the increase in employment. It needs to be recognized, nevertheless, that the

more the increased employment is concentrated in the production of consumption rather than investment goods, the greater the likelihood that expected profits are disappointed and turn negative. Then, the chain of causation engenders a slump: Lower expected profits lead to lower employment and, to the extent that employment in the production of investment goods falls, actual profits also fall.

The conclusion to be drawn from the above discussion, is that profits and employment are not antithetical. The relationship between a change in expected total profits and the resulting change in employment is definitely positive, with the former driving the latter. The relationship between the change in actual profits and that of employment is mostly positive but, in this case, the latter acts as the driver and has a weaker effect on the former. If the effect is sufficiently weak, the change in expected profits reverses sign and so do the changes in employment and actual profits. Hence, the relationship among the three cannot be negative and is practically always positive.

An implication of the positive relationship between changes in expected and actual profits, on the one hand, and change in employment, on the other, is that there is a corresponding positive relationship between changes (prospective or actual) in business interests and changes in the interests of workers and employees. Consequently, the relationship between business interests and the working class (or, practically equivalently, between employers and employees) could best be described as symbiotic rather than antagonistic.⁶

⁶ A symbiotic relationship is more complex than a purely antagonistic one. Symbiosis does not preclude antagonism but in a symbiotic relationship the conflict between the antagonistic forces is contained within certain bounds, so as not to destroy the basis

3. Effects on employment of different profits' sources

It has been noted that the five sources of profits have a differential primary impact on production, each affecting mainly particular types of output. Their impact on employment will therefore depend on how labor-intensive happen to be the types of output, which are mainly affected. The labor-intensiveness is reflected in the value of an elasticity index, the *profits elasticity of employment*, which is defined as the proportionate change in employment divided by the proportionate change in profits.

But the change in employment associated with a change in profits, is also affected by any concurrent change in the profit margin. Thus, the labor-intensiveness of any particular type of production is fully reflected in the profits elasticity of employment only if the profit margin remains constant. In general, the profits elasticity of employment will reflect both the labor-intensiveness of the particular industry, which in the short-run may be taken as given, and any variation in the profit margin.

Given that the profit margin is determined by the strength of competition characterizing a particular industry, which may reasonably be assumed to be given in the short-run, can the profit margin also be considered to be

for a mutually gainful co-operation between the antagonistic interests. In other words, a symbiotic relationship is not a zero- but a positive-sum game and the antagonism within such a relationship is not about one's gain causing another's equal loss but about the division of a gain between the different sides. Fairness in dividing the relative gains prevents the development of destructive antagonistic forces and, consequently, a sense of morality is important in the preservation of a symbiotic relationship. Thinking about capitalism as involving a symbiotic relationship between employers and employees, provides a more nuanced and realistic view of the capitalist system than the purely antagonistic relationship posited by radical Marxism or the consensual and devoid of conflict relationship implied by neoclassical economics.

constant? This, of course, would simplify the analysis and make the profits elasticity of employment exclusively dependent on the labor-intensiveness of the type of production that is most affected by a profits source. It seems sensible, therefore, to continue on the basis of this assumption and treat the profit margin as given for the purposes of short-run analysis.

There is, nevertheless, a qualification to this assumption that is of some importance. The problem is that, even if it is accepted that the strength of competition is stable in the short-run, there may be a systematically differential response to an increase from a decrease in profits. In this case, even if the strength of competition is given, the profit margin will differ between the beneficial and the pathological phases. As a result, the profits elasticity of employment may not reflect only the labor-intensiveness of the particular output that is affected by a profits' source but also the sustainability phase. Bearing this in mind, it becomes evident that in examining the profits elasticity of employment for any profits' source, the two phases cannot generally be expected to exhibit the same elasticity and need to be distinguished.

We intend to proceed as follows: Each source of profits is likely to have a different elasticity and these will be compared among themselves. Another useful comparison is with the *average composite profits elasticity*, which would result if the change in profits consisted of profits procured equally from all sources. Consequently, in total, twelve different elasticities of employment may be distinguished and compared; five for the profits' sources in the beneficial phase, *plus* another five in the pathological phase, *plus* two average composites for the two phases. Let us now examine in general terms the elasticities for each profits' source.

(i) Investment

Production in the investment sector tends to be less labor-intensive than in the economy as a whole. The increase in organic profits, which are the profits resulting from an expansion of investment in the beneficial phase, is thus likely to increase employment less than an equal rise in profits emanating equi-proportionally from all profits' sources. In other words, the organic profits elasticity of employment is likely to be lower than the average composite profits elasticity of employment.

In the pathological phase, when severe sectorial imbalances have appeared, the elasticity values can change considerably. The reduction in miscarried profits, which are the losses or negative profits resulting from a contraction of investment, will most likely reduce employment more than an equal reduction in profits emanating from all profits' sources in equal proportions. This is because some on-going investment will cease abruptly and a number of investment projects at different stages of progress will be abandoned rather than scaled down. As a result, in these cases, the reduction in employment will be drastic. It follows that the miscarried profits elasticity of employment will be higher (in absolute terms) than the average composite profits elasticity of employment.

Moreover, as has been noted above, the average composite profits elasticity of employment may differ in the pathological phase from its value in the beneficial stage. There are two reasons for this, the one tending to lower and the other to raise the elasticity in the pathological phase. Which of the two has the stronger effect, depends on the institutional characteristics of an economy and is a matter that can be

settled only empirically.

The elasticity of employment in the pathological phase will be lower than the beneficial stage, if labor laws prohibit block firings and oblige firms to reduce employment gradually in small steps. Though such laws will also discourage labor hiring and result in low elasticity of employment in the beneficial phase, they have a binding and hence most likely stronger effect in the pathological phase.

On the other hand, the elasticity of employment in the pathological phase will be higher than the beneficial phase, if prices are slower to adjust downwards than upwards. In this case, firms are averse to reducing their profit margins in the pathological phase and prefer to reduce instead output and employment. The difference between the two phases will be even more pronounced when, in the beneficial phase, firms prefer to increase profit margins and prices rather than output and employment. At the extreme, the elasticity of employment in the beneficial phase is zero, when the price-quantity adjustment choice is resolved fully in favor of price. In other words, when the profits increase is associated wholly with higher prices and there is no increase in employment.

(ii) Export surplus

Exports may consist of such a wide variety of goods and services that they seem to defy any attempt at generalization regarding their labor intensiveness. Import-substitution, which provides an alternative route to the creation of an export surplus, can be similarly varied and difficult to generalize about. Thus, a comparison with the average composite elasticity is not possible. It would seem that the only general statement,

which may be ventured, is an obvious one. The non-autonomous profits elasticity of employment is higher, the more labor-intensive are the exports and/or the substituted imports.

In the pathological phase, when the export surplus shrinks, the same proposition applies. The thwarted profits elasticity of employment is higher (in absolute terms), the more labor-intensive are the stymied exports and the domestic production displaced by imports.

(iii) Budget deficit

Government expenditure consists mostly of civil servants' salaries for the provision of various services. The services provided by the state are as a rule highly labor-intensive. Though investment goods provided by the state, such as infrastructure, may not be labor-intensive, they tend to be a relatively small part of total government expenditure. Consequently, the increase in provisioned profits, resulting from budget deficits in the beneficial phase, will most likely increase employment more than an equal rise in profits springing from all profits' sources in equal proportions. In other words, the provisioned profits elasticity of employment is higher than the average composite profits elasticity of employment. The extent by which the former exceeds the latter will tend to be greater, the lower the proportion of investment in total government expenditure.

An increase in the budget deficit is, of course, possible through a reduction in tax revenue. Nevertheless, this is extremely rare in practice. In any case, when due to lower taxes, the provisioned profits elasticity of employment is likely to be lower than when due to higher government

expenditure and about the same as the average composite profits elasticity of employment.

In the pathological phase, when the budget deficit needs to be cut drastically, the tendency in a democracy is to protect civil servants' jobs and reduce, at least initially, general expenses and especially public investment. It follows then that the squandered profits elasticity of employment will be lower than the average composite profits elasticity of employment. This may continue with cuts in civil servants' pay aiming at preserving public sector jobs, especially if job tenure for civil servants is constitutionally guaranteed. The relationship between the two elasticities will be reversed, only if further expenditure cuts become unavoidable and result in dismissals and redundancies so that public sector employment is significantly reduced.

In the pathological phase, the reduction in the budget deficit may also come about through an increase in tax revenue. Then it would seem, at first sight, that the squandered profits elasticity profits elasticity of employment should be close to the composite profits elasticity of employment. Nevertheless, in the case of squandered profits and probably more than in other pathological instances, the effect on the business climate and hence profits' prospects may become catastrophic. It is true that in the pathological phase, whatever its origin, the economy is in crisis and the business climate is not sanguine. But it is only in this case that the inevitable correction involves a considerable and sudden increase in taxation. This is particularly damaging to business confidence. If, in addition, the political scene is inimical to business interests and the big rise in taxes is seen as an attack on the private sector, business confidence

might collapse.⁷

When business confidence collapses, investment falls drastically. As a result, the fall in profits from the increased taxation is intensified and a vicious circle develops: The effort to reduce the budget deficit through higher taxes leads to falling investment, which causes profits to fall further, while employment also falls and realized tax revenues fall short of the target. There is thus a renewed effort to close the deficit, leading to higher tax rates and further falls in investment, profits and employment. In these circumstances, the squandered profits elasticity of employment will also increase and rise substantially above the average composite profits elasticity of employment.

(iv) Consumption out of profits

Luxury goods and services constitute the characteristic focus of consumption out of profits. Despite their variety, they tend on the whole to be more labor-intensive than the economy's average labor-intensiveness. Thus, the increase in embellishing profits, resulting from consumption out of profits in the beneficial phase, is likely to increase employment more than an equal increase in profits emanating from all profits' sources in equal proportions. It follows that the embellishing profits elasticity of employment is higher than the average composite profits elasticity of employment.

⁷ This is what happened in Greece, where the bankruptcy of the state in 2010 and the attempt since to achieve a primary budget surplus, led mostly to sizeable increases in tax rates and other taxes, especially on property, rather than to significant cuts in state expenditure and particularly employment.

The pathological phase in this case, does not involve a clear resolution with falling profits but to an abandonment of parliamentary democracy and a passage to a different socio-political regime. In such an eventuality, a bifurcation presents itself. There may be a transition to an oppressive authoritarian regime, in which case dissolute profits may persist. Alternatively, the capitalist relations of production may be overthrown, in which case profits (as a return to owners of the means of production) will disappear.

It is evident that in the latter of the two cases above, a dissolute profits elasticity of employment cannot be specified and makes little sense. But even in the former, if there is no reduction in dissolute profits, the elasticity concept is inapplicable. Nevertheless, in this case, a reduction in dissolute profits is quite imaginable if the dictatorial regime adopts a populist stance or, more generally, considers such a reduction useful to its social control and power maintenance. Then, in general, there is no reason to believe that the dissolute profits elasticity of employment will differ from the embellishing profits elasticity. Unless, of course, the dictatorial state apparatus decisively gets the upper hand over business interests and rebuffs their tutelage. If there is such a development, labor laws may become restrictive with respect to termination of employment, in which case the dissolute profits elasticity of employment will be lower than the embellishing profits elasticity of employment.

(v) Dis-saving out of wages

Workers' consumption spending beyond current wage incomes, is most likely concentrated on durable and non-durable mass consumption goods. Such goods are on the whole capital- rather than labor-intensive and tend

to be more labor-intensive than the economy's average labor-intensiveness. Thus, the increase in gratifying profits, brought about by dis-saving out of wages in the beneficial phase, is likely to increase employment less than an equal increase in profits emanating from all profits' sources in equal proportions. Consequently, the gratifying profits elasticity of employment is lower than the average composite profits elasticity of employment.

In the pathological phase, further borrowing becomes impossible and the need to service and repay high levels of debt compel reduction in spending out of wages so that saving becomes positive. The reduction in dissipated profits, which ensues, gives rise to a dissipated profits elasticity of employment that is the mirror image of the gratifying profits elasticity and, hence, lower than the average composite profits elasticity of employment.

Table 1

Sustainability limits of profits' sources and related terminology

Profits' Sources	Beneficial phase	Primary impacts	Limits	Pathological phase
I	<i>organic profits</i>	Increase in productive capacity.	Excessive sectorial imbalance.	<i>miscarried profits</i>
X-M	<i>non-autonomous profits</i>	Increase in the ownership of foreign assets. Decrease pro tanto in the profits of trading partners.	Waning toleration of trading partners to decreases in their profits.	<i>thwarted profits</i>
B	<i>provisioned profits</i>	Increase in public debt and the sovereign debt/GDP ratio. Increase in public infrastructure, transfers and social services (health, education, police, army etc.).	Faltering creditors' confidence.	<i>squandered profits</i>
C_{II}	<i>embellishing profits</i>	Increase in the consumption of luxury goods and services.	Crumbling social legitimacy.	<i>dissolute profits</i>
-S_w	<i>gratifying profits</i>	Increase in mass consumption and the general living standard. Increase in the debt/income and debt/assets ratios.	Mounting debt leverage vulnerability.	<i>dissipated profits</i>

